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DEPARTMENT OF STATE

ASSISTANT SECRETARY

TO : The Under Secretary

THROUGH: S/S

FROM : AF - James K. Penfield

February 17, 1961

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SUBJECT: The Volta River and Related Projects

The Government of Ghana obtained in 1960 tentative assurances from the U.S. Government, the World Bank, and the UK to assist in the financing of the Volta River Hydroelectric Project. Of the total cost of $168 million, Ghana would finance 50 percent, the World Bank $40 million, DLF and Exim Bank $30 million and the UK $14 million. Foreign financing is dependent on satisfactory arrangements for the financing of the proposed Valco aluminum smelter which is to be the main purchaser of Volta River power.

The Government of Ghana is now sending a delegation headed by Minister of Finance Gbedemah to Washington with the objective of working out the details of the contracts under which World Bank and U.S. financing of the hydroelectric project would be made available. They also want to finalize the draft of the tax treaty between the U.S. and Ghana which is necessary to permit satisfactory operation of Valco.

Valco (Volta Aluminum Company) is being organized by Kaiser, Alcoa, Reynolds and Olin Mathieson. The total cost of the smelter will be $128 or $178 million according to the size of the smelter to be built. In view of what they believe are unacceptable political risks for private investment in Ghana, given the present pro-Soviet and anti-U.S. policies of the Government of Ghana, these four companies are now asking the U.S. Government for guarantees against all but the commerical risks of the Valco project.

The U.S. Government is also being asked by a group of aluminum companies headed by Aluminium Ltd. of Canada and including Kaiser and Reynolds, to guarantee against all but commercial risks a major part of a $162 million investment in the Boke Bauxite Mine in Guinea. Finally, the U.S. Government has offered last year to update a French made study of a dam on the Konkoure River in Guinea and to participate in the financing of this project. This would involve construction of an aluminum smelter.

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There is general agreement among Washington officials who have studied the problem that strong political and economic reasons speak in favor of U.S. Government support of the construction of the Volta Dam and of the aluminum companies engaged in the Valco project and the Boke project. It is recognized that a refusal to aid the Volta Project or a withdrawal of the aluminum companies from the Valco smelter would have very undesirable effect on Western relations with Ghana. In the case of Boke, a withdrawal of the Western aluminum companies project would make it possible for the Soviets to create an extremely efficient aluminum production on the basis of what is considered the richest bauxite mine in the world and of the very cheap water power potential of the Konkoure River.

On the other hand, U.S. guarantees in unprecedented far-reaching terms of the aluminum projects in Ghana and Guinea can only be justified if the terms of investment are such as to give some promise of continued operation. Little permanent benefit can be derived for the U.S. from the Valco and Boke projects unless we make our support of these projects part of a wider program designed to assist the economic growth of West Africa. We also must attempt to create a situation under which it will be more advantageous for the Governments of Ghana and Guinea, politically and economically, to permit these enterprises to continue their operations under Western control rather than to nationalize them. The Under Secretary for Economic Affairs has called for February 21 a meeting of the heads of Exim Bank, ICA, DLF and of the interested Assistant Secretaries in State and Treasury to work out a policy along these lines.

Concurrences

AFW - Mr. Ferguson
ED - Mr. Kenney
E - Mr. Kerr

AFW:REisenberg:wea:2/17/61

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